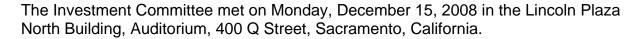


CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM BOARD OF ADMINISTRATION INVESTMENT COMMITTEE

MINUTES OF MEETING OPEN SESSION

December 15, 2008



The meeting was called to order at approximately 9:45 a.m. and the following members were present:

George Diehr, Chair
Priya Mathur, Vice Chair
John Chiang, represented by Terry McGuire
Rob Feckner
David Gilb, represented by Greg Beatty
Henry Jones
Bill Lockyer, represented by Rosalind Brewer
Louis F. Moret
Tony Oliveira
Anne Sheehan
Kurato Shimada
Charles Valdes

Investment Committee members excused: Marjorie Berte

AGENDA ITEM 2 – APPROVAL OF NOVEMBER 2008 MEETING MINUTES

On **MOTION** by Mr. Moret, **SECONDED** and **CARRIED** that the November 17, 2008 Open Session minutes be approved as presented.

Investment Committee 1 December 15, 2008

AGENDA ITEM 3a – TOTAL FUND, CalPERS Total Fund Quarterly Report

Michael Schlachter and Andrew Junkin, Wilshire Associates, presented a 2008 third quarter performance review of the total fund, each asset class, and selected portfolios; and an overview of market conditions. It was noted that CalPERS generated a total fund net return of -10.8% for the quarter and -15.8% for the year.

The Executive Summary of the Investment Performance for the quarter ending September 30, 2008 was also provided, which included the CalPERS Total Fund, Affiliate Funds, Legislators' Fund, Annuitants Healthcare Plan, and the Supplemental Income Plans. The total fund composite lagged its strategic policy for the quarter. The System outperformed against its weighted policy for the 10-year period.

Mike Moy, Pension Consulting Alliance (PCA), presented written comments regarding the Alternative Investment Management (AIM) Program performance as reported by Wilshire Associates for the period. Mega buyouts, which are a large component of the AIM portfolio, have suffered the most from the abnormal market volatility and severely curtailed credit availability.

Pam Alsterlind, PCA-Real Estate Advisors, highlighted written comments regarding the Real Estate quarterly report for the Core portfolio and the Specialized (Noncore) portfolio.

The Committee accepted the quarterly information reports.

The meeting recessed from 10:55 a.m. to 12:50 p.m.

AGENDA ITEM 3b – TOTAL FUND, Review and Recommendations regarding Asset Allocation

Farouki Majeed, Senior Investment Officer- Asset Allocation, presented the item. Michael Schlachter, Wilshire Associates, and Allan Emkin, Pension Consulting Alliance, were available to respond to questions from the Committee.

Staff reported that the sharp decline in global equity markets has resulted in significant deviation of asset class weights from policy targets and total fund return will have significant tracking error relative to the return of the policy benchmark. After numerous internal discussions and with input from the Board's consultants, staff recommends new policy ranges on a temporary basis to expand the asset class ranges until the market environment allows staff to rebalance to targets.

On **MOTION** by Ms. Mathur, **SECONDED** and **CARRIED** to adopt new Asset Allocation ranges as follows, and direct staff to incorporate the new ranges into the Statement of Investment Policy for Asset Allocation Strategy. The Committee also directed staff to conduct an Asset Allocation Review in the first half of 2009.

Asset Class	Policy Target	Policy Range	New Policy
			Range
Global Equities	56%	+/- 5%	+/- 15%
(GE)			
AIM	10%	+/- 3%	+/- 8%
Total Equities	66%	+/- 5%	+/- 15%
Global Fixed	19%	+/- 5%	+/- 15%
Income (GFI)			
Inflation-Linked	5%	0% - 5%	0% - 5%
Assets (ILAC)			
Total GFI +	24%	+/- 5%	+/- 15%
ILAC			
Real Estate	10%	+/- 3%	+/- 5%
Cash	0%	0%-2%	0%-10%
Total	100%	-	-

The ranges are temporary and will be valid until a review of the asset allocation is conducted in 2009.

AGENDA ITEM 3c - TOTAL FUND, Risk Management Update

Farouki Majeed, Senior Investment Officer, and Richard Roth, Senior Portfolio Manager, presented the item.

Staff presented the Forecast Total Risk and the Total Fund Tracking Error Reports for the period ending September 30, 2008. Staff is working with all asset classes to understand and capture risks, as well as to develop additional risk metrics to augment the Risk Management System. Staff expects to develop comprehensive risk management practices by the middle of 2009 and will continue to provide quarterly updates.

The Committee accepted the quarterly information report.

AGENDA ITEM 3d – TOTAL FUND, Proposed Changes to Currency Overlay Program

Farouki Majeed, Senior Investment Officer-Asset Allocation; Curtis Ishii, Senior Investment Officer-Fixed Income; and Raymond Venner, Portfolio Manager, presented the item.

Michael Schlachter, Wilshire Associates, was available to respond to questions from the Committee.

Staff presented rationale for three key proposed Currency Overlay Program policy changes relevant to global investment strategies and currency risk. Staff and Wilshire's methodologies for calculating the hedge ratio at total fund were presented for consideration.

On **MOTION** by Ms. Mathur, **SECONDED** and **CARRIED** to approve the following:

- The Currency Overlay Program shall be revised so that it applies to the currency exposure aggregated at the Total Fund level, rather than exclusively for international equities;
- Subject to further review, the currency hedge ratio shall be set at 15%, with an accompanying range to be proposed to the Policy Subcommittee; and
- Staff and Wilshire Associates shall continue to review the methodology for the hedge ratio and shall update the Investment Committee in six months.

The revised policy will be presented at the February 2009 Policy Subcommittee meeting.

AGENDA ITEM 3e – TOTAL FUND, Annual Consultant Conflict of Interest Protocol Update

Matt Flynn, Division Chief, presented the item.

In accordance with the June 2005 approved CalPERS Consultant Conflict of Interest Protocol, CalPERS investment consultants are required to disclose on an ongoing basis any circumstances that may create actual, potential, or perceived conflicts of interest. Staff monitors each consultant's compliance through its internal conflict of interest tracking process. For the period July 1, 2007 through November 30, 2008, three firms in the AIM Consultant Pool and the Primary Pension Consultant filed disclosures under the Protocol. Staff consulted with CalPERS Legal Office on the disclosures and reported on the status of each.

The Board's Primary Pension Consultant provides the Investment Committee disclosure of its relationships with external managers on an ongoing basis.

The Committee accepted the annual information report.

AGENDA ITEM 3f - TOTAL FUND, Master Custody Contract Renewal

Anne Stausboll, Interim Chief Investment Officer, informed the Committee that, under delegated authority, staff intends to extend the contract with State Street Bank & Trust for Master Custody Services for one year (July 1, 2009 through June 30, 2010). The competitively bid contract was effective July 1, 2006, for a three year period, with the option of two one-year renewals.

The Committee accepted the information report.

AGENDA ITEM 3g – TOTAL FUND, Board's Independent General Investment Consultant Contract

Wilshire Associates has served as the Board's Primary Investment Consultant without interruption since 1983 as the result of a series of competitive solicitations and contract awards with varying durations. The current contract with Wilshire was effective July 1, 2005, for a three-year period, with the option of two one-year renewals.

On **MOTION** by Mr. Jones, **SECONDED** and **CARRIED** to approve the one-year contract renewal for Wilshire Associates for Primary Investment Consultant services. The final one-year renewal will be executed for a term ending June 30, 2010.

AGENDA ITEM 4a – ASSET ALLOCATION, Revision of Policy on Affiliate Funds

Anne Stausboll, Interim Chief Investment Officer, presented the item. Andrew Junkin, Wilshire Associates, was available to respond to questions from the Committee.

Because of the current high levels of market volatility, it is important that the Affiliate Funds policy be revised immediately to achieve consistency in asset allocation rebalancing methods for the Funds. The revision also clarifies the roles of the Committee and staff in establishing and managing asset allocation targets and ranges for the Funds.

On **MOTION** by Ms. Mathur, **SECONDED** and **CARRIED** to approve the revised Statement of Investment Policy for Affiliate Funds, with additional revision.

The additional language revision is that "Allocations may temporarily deviate from policy ranges due to extreme market volatility." A parallel change will be made to the Asset Allocation Strategy policy at the February Policy Subcommittee meeting.

AGENDA ITEM 5 - REAL ESTATE

There were no items to report.

AGENDA ITEM 6 – ALTERNATIVE INVESTMENT MANAGEMENT (AIM) PROGRAM

There were no items to report.

AGENDA ITEM 7a – INFLATION-LINKED ASSET CLASS (ILAC), Implementation Update

Farouki Majeed, Senior Investment Officer, reported on implementation of the ILAC, including the commodities, inflation-linked bonds, infrastructure, and forestland components. An update was provided for each component in the areas of investment policies, staffing, delegations, incentive plan, and investment implementation.

Michael Schlachter, Wilshire Associates, was available to respond to questions from the Committee.

Staff will continue to provide monthly ILAC implementation updates.

AGENDA ITEM 7b – INFLATION-LINKED ASSET CLASS (ILAC), Selection of ILAC Consultants for Spring-Fed Pool

Farouki Majeed, Senior Investment Officer, and Angela Lyons, Investment Officer, presented the item.

In February 2008, the Investment Committee delegated authority to staff to establish a spring-fed pool of external resources to meet the ILAC Program needs. A focused solicitation was undertaken to obtain proposals from interested consultants to provide services for the infrastructure, forestland and commodities asset classes. On July 31, 2008, a Request for Proposals (RFP) was released to establish the pool of consultants.

Staff described the proposal review and scoring process and reported the selection of the following consultants for inclusion in the spring-fed pool:

Infrastructure

- Brock Capital Group LLC
- Capital Innovations, LLC
- Cliffwater LLC
- Courtland Partners, Ltd.
- Investors Diversified Realty, LLC
- KPC Consulting Group, LLC d/b/a LP Capital Advisors
- Magellan Asset Management Limited
- Meketa Investment Group
- Pension Consulting Alliance, Inc.
- R.V. Kuhns & Associates, Inc.
- Wilshire Associates Incorporated

Forestland

- Cortex Consultants, Inc.
- James W. Sewall Company
- ORG Portfolio Management LLC

Commodities

- Cliffwater LLC
- R.V. Kuhns & Associates, Inc.
- Wilshire Associates Incorporated

The consultant firms are subject to satisfactory contract negotiations with awards scheduled to be finalized within the first quarter of 2009.

AGENDA ITEM 8a – GLOBAL FIXED INCOME, Currency Overlay Managers Annual Review

Curtis Ishii, Senior Investment Officer, and Eric Busay, Portfolio Manager, presented the item. Michael Schlachter, Wilshire Associates, was available to respond to questions from the Committee.

Staff reported on the annual performance of the currency overlay managers, Pareto Partners and State Street Global Advisors, and recommended renewal of their contracts for one year.

On **MOTION** by Mr. Moret, **SECONDED** and **CARRIED** to renew annual contracts of CalPERS' currency overlay managers, Pareto Investment Management Limited (Pareto) and State Street Global Advisors (SSgA), for a period of one year.

AGENDA ITEM 9a - GLOBAL EQUITY,

There were no items to report.

AGENDA ITEM 10a – GLOBAL EQUITY – CORPORATE GOVERNANCE, Legislative Reports: Sudan (Cal. Gov. Code sec. 7513.6) and Iran (Cal. Gov. Code secs. 7413.7 and 16642)

Eric Baggesen, Senior Investment Officer, presented the item.

Staff outlined the provisions of the Government Codes and presented the required annual reports to the Legislature on companies with business operations in Sudan and Iran. The statutes prohibit CalPERS from investing in companies that have business operations in Sudan and Iran and that meet certain other criteria as specified in the statutes.

On **MOTION** by Ms. Mathur, **SECONDED** and **CARRIED** to approve the transmittal of annual reports to the Legislature, as required by Government Code sections 7513.6, 7413.7, and 16642.

AGENDA ITEM 10b – GLOBAL EQUITY – CORPORATE GOVERNANCE, Corporate Governance Update- Institutional Investor Response to Market Conditions

Eric Baggesen, Senior Investment Officer, reported on a December 11 meeting in Washington, DC, of public pension funds, including CalPERS and CalSTRS, to begin the construction of a coherent position statement that outlines concerns and ideas relevant to shaping the changes that will be forthcoming to the existing structures of regulation, market operation, information availability and accountability.

The listing of topics and perspective statement will be compiled and sent to the investor group for their input. Upon final determination of this information set, a dissemination and engagement process will be formulated to carry the messages to the appropriate regulatory and political audiences.

Staff will continue to provide updates.

AGENDA ITEM 11 – SUPPLEMENTAL INCOME PLANS (SIP)

There were no items to report.

AGENDA ITEM 12 – CHIEF INVESTMENT OFFICER'S / CHIEF OPERATING INVESTMENT OFFICER'S REPORT,

a. Consolidated Investment Activity Report

Anne Stausboll, Interim Chief Investment Officer, presented the item. The Committee accepted the Consolidated Investment Activity Report. The total market value of the fund as of October 31, 2008, was approximately \$186.7 billion and the total book value was approximately \$200.2 billion.

b. Chief Operating Investment Officer's Status Report

The Committee accepted the Chief Operating Investment Officer's Status Report.

c. 2009 Annual Agenda Item Calendar

The Committee accepted the 2009 Annual Agenda Item Calendar.

AGENDA ITEM 13 – DRAFT FEBRUARY 2009 AGENDA

The Committee accepted the proposed February 17, 2009 agenda as presented.

AGENDA ITEM 14 - PUBLIC COMMENT

The following commented on East Palo Alto rent control issues and business practices of Page Mill Properties:

- Ruben Abrica, East Palo Alto Mayor
- Jonathan Frohnmayer, Community Legal Services, East Palo Alto
- Christopher Lund, Community Organizer
- Dean Preston, Tenants Together

CalPERS is a limited partner with Page Mill Properties II. Real Estate and Legal staff are engaged in following up on the issues and reviewing the status of the investment.

The meeting was adjourned at 3:00 p.m.

The next Investment Committee meeting is scheduled for February 17, 2009 in Sacramento, California.

ANNE STAUSBOLL
Chief Executive Officer